

NEWS RELEASE

FOR RELEASE _____

Cline, DeVries & Allen, LLP today released an audit report on the City of Story City, Iowa.

The City's receipts totaled \$4,250,640 for the year ended June 30, 2010, a one percent increase from 2009. The receipts included \$964,559 in property tax, \$759,687 from tax increment financing collections, \$884,057 from charges for service, \$373,688 from operating grants, contributions and restricted interest, \$656,285 from capital grants, contributions, and restricted interest, \$367,214 from local option sales tax, \$42,408 from unrestricted investment earnings, and \$202,742 from other general receipts.

Disbursements for the year totaled \$4,817,523 a fifteen percent decrease from the prior year, and included \$1,466,632 for capital projects, \$503,476 for culture and recreation, and \$493,810 for debt service. Also, disbursements for business type activities totaled \$738,358.

A copy of the audit report is available for review in the City Clerk's office.

CITY OF STORY CITY
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditors' Report	5-6
 Basic Financial Statements:	 <u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 9-10
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 11-12
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 13
Notes to Financial Statements	14-22
 Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	24-26
Notes to Required Supplementary Information – Budgetary Reporting	27
 Other Supplementary Information:	 <u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 28-39
Schedule of Indebtedness	2 30-31
Note Maturities	3 32
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 33
 Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	 35-36
 Schedule of Findings	 38-41

City of Story City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Jensen*	Mayor	Jan 2014
Dwayne Fiihr*	Council Member	Jan 2012
Barbara Frohling	Council Member	Jan 2012
Lynn Cummings	Council Member	Jan 2012
Dave Sporleder	Council Member	Jan 2010
Jeffrey Crisman	Council Member	Jan 2010
Mark Jackson	Administrator	Indefinite
Dena Nichols	Clerk/Treasurer	Jan 2011
Fred A. Larson	Attorney	Jan 2011

* Michael Jensen was appointed 1/11/10 due to the death of Mayor Kenneth Peterson and Dwayne Fiihr was appointed on 2/15/10 to replace Michael Jensen.

City of Story City

CLINE, DEVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

316 S. Duff Suite B – PO Box 187
Ames, Iowa 50010
Phone: 515-233-4060 FAX: 515-233-3703

13375 University Ave, Suite 203
Clive, Iowa 50325
Phone: 515-252-7141 FAX: 515-252-7073

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Story City, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Story City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Story City as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. However, the primary government financial statements, because they do not include the financial data of the component unit of the City of Story City, do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Story City as of and for the year ended June 30, 2010 on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2010 on our consideration of the City of Story City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has not presented management's discussion and analysis which introduces the primary government financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the primary government financial statements.

Budgetary comparison information on pages 24 through 26 is not a required part of the primary government financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Story City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

August 25, 2010
Ames, Iowa

City of Story City

Basic Financial Statements

City of Story City

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 462,292	21,480	3,283	36,250
Public works	395,681	65,398	302,031	-
Health and social services	19,900	-	-	-
Culture and recreation	503,476	80,944	31,571	-
Community and economic development	380,541	-	-	-
General government	356,833	-	31,174	-
Debt service	493,810	-	-	-
Capital projects	1,466,632	-	5,629	620,035
Total governmental activities	4,079,165	167,822	373,688	656,285
Business type activities:				
Water	334,976	316,832	-	-
Sewer	301,839	352,977	-	-
Stormwater drainage	88,643	46,426	-	-
Golf Course	12,900	-	-	-
Total business type activities	738,358	716,235	-	-
Total	\$ 4,817,523	884,057	373,688	656,285
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Special assessments				
Local option sales tax				
Mobile home tax				
Hotel/motel tax				
Franchise taxes				
Cable television				
Unrestricted interest on investments				
Loan repayments				
Rent				
Net loan proceeds				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Urban renewal purposes				
Debt Service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(401,279)	-	(401,279)
(28,252)	-	(28,252)
(19,900)	-	(19,900)
(390,961)	-	(390,961)
(380,541)	-	(380,541)
(325,659)	-	(325,659)
(493,810)	-	(493,810)
(840,968)	-	(840,968)
(2,881,370)	-	(2,881,370)
-	(18,144)	(18,144)
-	51,138	51,138
-	(42,217)	(42,217)
-	(12,900)	(12,900)
-	(22,123)	(22,123)
(2,881,370)	(22,123)	(2,903,493)
766,097	-	766,097
759,687	-	759,687
198,462	-	198,462
-	-	-
367,214	-	367,214
1,778	-	1,778
92,598	-	92,598
2,379	-	2,379
23,944	-	23,944
35,649	6,759	42,408
29,672	-	29,672
27,529	13,225	40,754
1,862,525	-	1,862,525
11,617	-	11,617
2,825	-	2,825
17,209	(17,209)	-
4,199,185	2,775	4,201,960
1,317,815	(19,348)	1,298,467
2,422,271	891,258	3,313,529
\$ 3,740,086	871,910	4,611,996
\$ 62,580	-	62,580
86,125	-	86,125
407,406	-	407,406
217,078	-	217,078
2,966,897	871,910	3,838,807
\$ 3,740,086	\$ 871,910	\$ 4,611,996

City of Story City

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2010

		Special Revenue		Debt Service
	General	Tax Increment Financing	Hospital Trust	General Obligation Bonds
Receipts:				
Property tax	\$ 737,189	-	-	194,037
Tax increment financing collections	-	759,687	-	-
Other city tax	487,913	-	-	-
Licenses and permits	9,095	-	-	-
Use of money and property	31,814	7,664	8,590	4,602
Intergovernmental	-	-	-	-
Charges for service	157,575	-	-	-
Special assessments	-	-	-	-
Miscellaneous	55,901	-	-	-
Total receipts	1,479,487	767,351	8,590	198,639
Disbursements:				
Operating:				
Public safety	462,292	-	-	-
Public works	79,662	-	-	-
Health and social services	19,900	-	-	-
Culture and recreation	489,166	-	-	-
Community and economic development	36,998	343,543	-	-
General government	354,194	-	-	-
Debt service	-	-	-	493,810
Capital projects	-	-	-	-
Business Type activities	-	-	-	-
Total disbursements	1,442,212	343,543	-	493,810
Excess (deficiency) of receipts over (under) disbursements	37,275	423,808	8,590	(295,171)
Other financing sources (uses):				
Bond/Note proceeds, net of fees	-	-	-	-
Sale of fixed assets	2,825	-	-	-
Operating transfers in	39,002	23,000	185,467	155,346
Operating transfers out	(64,040)	(336,388)	(4,000)	-
Total other financing sources (uses)	(22,213)	(313,388)	181,467	155,346
Net change in cash balances	15,062	110,420	190,057	(139,825)
Cash balances beginning of year	543,467	296,986	507,478	354,433
Cash balances end of year	\$ 558,529	407,406	697,535	214,608
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	214,608
Unreserved:				
General fund	558,529	-	-	-
Special revenue funds	-	407,406	697,535	-
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 558,529	407,406	697,535	214,608

See notes to financial statements.

Capital Projects			Other Nonmajor Governmental Funds	Total
I-35 Development	Street Improvements	Clubhouse/ Trail		
-	-	-	33,333	964,559
-	-	-	-	759,687
-	-	-	-	487,913
-	-	-	-	9,095
249	221	105	39,605	92,850
546,307	-	73,728	319,935	939,970
-	-	-	-	157,575
-	-	-	-	-
-	-	2,736	44,135	102,772
546,556	221	76,569	437,008	3,514,421
-	-	-	-	462,292
-	-	-	316,019	395,681
-	-	-	-	19,900
-	-	-	14,310	503,476
-	-	-	-	380,541
-	-	-	2,639	356,833
-	-	-	-	493,810
585,906	125,185	474,197	281,344	1,466,632
-	-	-	-	-
585,906	125,185	474,197	614,312	4,079,165
(39,350)	(124,964)	(397,628)	(177,304)	(564,744)
-	1,211,250	558,275	93,000	1,862,525
-	-	-	-	2,825
-	-	-	51,120	453,935
-	-	-	(32,298)	(436,726)
-	1,211,250	558,275	111,822	1,882,559
(39,350)	1,086,286	160,647	(65,482)	1,317,815
119,845	136,396	(88,198)	551,864	2,422,271
80,495	1,222,682	72,449	486,382	3,740,086
-	-	-	2,470	217,078
-	-	-	-	558,529
-	-	-	471,181	1,576,122
80,495	1,222,682	72,449	(49,849)	1,325,777
-	-	-	62,580	62,580
80,495	1,222,682	72,449	486,382	3,740,086

City of Story City

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2010

	Enterprise Funds				Total
	Water	Sewer	Stormwater Drainage	Golf Course	
Operating receipts:					
Use of money and property	\$ 13,225	-	-	-	13,225
Charges for service	316,832	352,977	46,426	-	716,235
Total operating receipts	330,057	352,977	46,426	-	729,460
Operating disbursements:					
Business type activities	334,976	301,839	88,643	12,900	738,358
Total operating disbursements	334,976	301,839	88,643	12,900	738,358
Excess (deficiency) of operating receipts over (under) operating disbursements	(4,919)	51,138	(42,217)	(12,900)	(8,898)
Other financing sources (uses):					
Interest on investments	2,939	3,800	18	2	6,759
Operating transfers in	-	20,000	-	15,121	35,121
Operating transfers out	(540)	(51,790)	-	-	(52,330)
Total other financing sources (uses)	2,399	(27,990)	18	15,123	(10,450)
Net change in cash balances	(2,520)	23,148	(42,199)	2,223	(19,348)
Cash balances beginning of year	304,003	566,320	21,406	(471)	891,258
Cash balances end of year	\$ 301,483	589,468	(20,793)	1,752	871,910
Cash Basis Fund Balances					
Reserved for maintenance/replacement	\$ 107,671	286,754	-	-	394,425
Unreserved	193,812	302,714	(20,793)	1,752	477,485
Total cash basis fund balances	\$ 301,483	589,468	(20,793)	1,752	871,910

See notes to financial statements.

City of Story City

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Story City is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Story City has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the Story City Municipal Electric Utility. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's primary government financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These primary government financial statements present the City of Story City (the primary government) and exclude the component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its administrative office.

Component Unit

The Story City Municipal Electric Utility is a component unit of the City of Story City and is not presented in these primary government financial statements. They are legally separate from the City, but are financially accountable to the City. The Story City Municipal Electric Utility (Utility) was established to operate the City's electric facilities. The Utility is governed by a three member Board of Trustees appointed by the Mayor and approved by the City Council. Title to all property of the Utility is held in the name of the City. A financial benefit/burden relationship exists between the City and the Utility in that the

City is authorized by statute to issue general obligation debt for a city utility, and may certify taxes for the payment of the debt.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Central Iowa Regional Transportation Planning Alliance Board, Story City Chamber of Commerce Board, Story City Main Street Program, Trees Forever Board, E911 Board and Story County Mayors Group.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are

paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Hospital Trust Fund is used for internal loan purposes. To date, it has been used for TIF related projects.

Debt Service:

The General Obligation Bonds Fund is used to account for the City's general obligation long term debt.

Capital Projects:

The Street Improvements Fund is used to account for the reconstruction of streets near the golf course.

The Clubhouse/Trail Fund is used to account for the construction of the Clubhouse at the Golf Course and the Pedestrian Trail.

The I-35 Development Fund is used to account for the development of the I-35 Business Park.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Story City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a

proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the community and economic development and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds in instruments that mature within 397 days. Operating funds are defined as those funds which are reasonably expected to be expended during a current budget year or within fifteen months of receipt. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City of Story City.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation and urban renewal tax increment financing project notes are as follows:

Year Ending June 30,	General Obligation		Urban Renewal Tax	
	Notes		Increment Financing	
	Principal	Interest	Principal	Interest
2011	\$ 1,585,000	122,755	\$ 240,000	123,146
2012	275,000	98,575	380,000	105,315
2013	290,000	87,137	265,000	90,730
2014	225,000	74,783	420,000	76,163
2015-2019	1,155,000	209,567	1,535,000	161,736
2020	140,000	8,610	-	-
Total	\$ 3,670,000	\$ 601,427	\$ 2,840,000	\$ 557,090

The Urban Renewal Tax Increment Financing Bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The provisions providing for the issuance of the Urban Renewal Tax Increment Financing Bonds, Series 2007B, require a separate Bond Reserve Fund to be created. There shall be set aside and paid into the Reserve Fund from TIF Revenues and other legally available TIF funds of the City on each June 1 and December 1, beginning December 1, 2008, and continuing through June 1, 2011, a sum equal to \$41,667 until there has been accumulated in the Reserve Fund a total amount equal to \$250,000.

The provisions of the Urban Renewal Tax Increment Financing Bonds, Series 2010, require that each June 1 and December 1, there shall be a deposit into the same Reserve Fund above equal to \$14,250 until there has been accumulated in the Reserve Fund the amount of \$57,000 for a total Reserve Fund balance of \$307,000 which includes the balance for the Series 2007B Bonds.

As of June 30, 2010, the Reserve Fund has not been established.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years end June 30, 2010, 2009, and 2008 were \$65,864, \$62,217 and \$61,452 respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. A portion of sick leave is payable upon termination of employment if the employee quits or retires after at least ten years of continuous service. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 41,068
Sick leave	<u>47,501</u>
Total	<u>\$ 88,569</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

(6) Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Hospital Trust	\$ 4,000
	Library Gift	3,752
	Enterprise: Sewer	<u>31,250</u>
		<u>39,002</u>
Special Revenue: Hospital Trust	Debt Service: Special Assessments	4,267
Hospital Trust	Special Revenue: Urban Renewal Tax Increment	181,200
Insurance	General	2,540
Insurance	Enterprise: Water	540
Insurance	Sewer	540
Tax Increment Financing	Capital Project: Capital Improvements	23,000
Equipment Replacement	General	<u>44,000</u>
		<u>256,087</u>
Debt Service: General Obligations	Special Revenue: Urban Renewal Tax Increment	155,188
General Obligations	Debt Service: Special Assessments	<u>158</u>
		<u>155,346</u>
Capital Projects: Trees Forever	General	<u>3,500</u>
Enterprise: Sewer Improvement and Replacement	Enterprise: Sewer	20,000
Golf Course	Special Revenue: Golf course Trust	1,121
Golf Course	General	<u>14,000</u>
		<u>35,121</u>
Total		<u>\$ 489,056</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Notes Receivable/Economic Development

During the year ended June 30, 2007, the City entered into a loan for \$36,000 with Record Printing. Original terms of the agreement required monthly payments of principal and interest of \$665 every month starting October 1, 2006 until September 1, 2011. These terms were modified in January of 2009 and only interest was required monthly for January 6, 2009 thru December 6, 2009. Principal and interest payments started again on January 6, 2010 in the amount of \$616 per month. The interest rate is 4.125% and the balance of the loan on June 30, 2010 was \$17,425.

During the 2004-2005 fiscal year, the City loaned \$50,000 to MH Eby, Inc. The original terms of the agreement state that interest of \$115 is due monthly starting May 1, 2009 thru March 1, 2010. Principal payments of \$25,000 each are due on April 1, 2010 and April 1, 2011. The loan has an interest rate of 2.75%. In April of 2009, the terms of the original agreement were modified. New terms require monthly interest payments of \$57 starting May 1, 2010 thru March 1, 2011. Principal and interest of \$25,057 will be due and payable April 1, 2011. The balance of the loan on June 30, 2010 was \$25,229. MH Eby, Inc. only made nine interest payments instead of twelve during the fiscal year ended June 30, 2010.

During the year ended June 30, 2007, the City entered into a loan agreement with Precision Restoration and Paint for \$10,000. Principal and interest in the amount of \$226 was due monthly starting March 1, 2007 and continuing through February 2010. The interest rate on the loan is 4.125%. During the year ended June 30, 2008, Precision Paint and Restoration went out of business. The outstanding balance of \$8,838 was forgiven by the City during the year ended June 30, 2010.

During the year ended June 30, 2009, the City entered into a loan agreement with Precision Machine and Manufacturing Co. The loan is a \$40,000 loan with no interest. The loan is to be repaid from the sale proceeds of the vacant commercial building that the Company owns.

During the fiscal year ended June 30, 2009, the City entered into a loan agreement with MH Eby, Inc. Monthly interest of \$52 is due and payable starting October 5, 2008 thru August 5, 2012. Principal plus interest of \$12,552 is due and payable on September 5, 2012. Thereafter, monthly interest of \$26 shall be due and payable starting September 5, 2012 and continuing thru August 5, 2013. Principal plus interest in the amount of \$12,526 shall be due and payable on September 5, 2013. The balance on the loan at June 30, 2010 was \$25,104. MH Eby, Inc. failed to make all of their interest payments on the loan during the year ended June 30, 2010.

During the year ended June 30, 2010, the City entered into a loan agreement with Lafayette Township to purchase a fire truck for \$85,000. The Township paid \$20,500 down and the City furnished the remaining \$64,500. The township will repay the City in 4 equal installments of \$5,500 each, with simple interest at a rate of 2.7% per year. These four payments, with accumulated interest are due on December 1, 2010, May 1, 2011, December 1, 2011 and May 1, 2012.

The City also entered into an agreement with LaFayette Township to purchase a first responder vehicle. The City will advance the purchase price of the vehicle and the cost of equipping it. The Township will repay the City for the Township's 30% share of the cost on or before December 1, 2012 with an interest rate of 2.7%.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$11,608 during the year ended June 30, 2010.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Landfill

The City has contracted with the City of Ames for solid waste disposal for all households or residences within the City. The contract began April 1, 1994 and will terminate June 30, 2014. The cost is computed for each calendar year. On or before February 15th of each year, the City of Ames will notify the City of Story City of its proportionate share of the net costs of the system for the prior calendar year. The City of Story City will pay the City of Ames one-half of its share on July 15th and one-half on or before December 15th of each year. The annual rate of the contract is determined by multiplying the net per capita cost of the Ames solid waste disposal system by the population of the City of Story City.

(11) Construction Commitments

The City had the following commitments with respect to unfinished capital projects at June 30, 2010:

<u>Project</u>	<u>Remaining Commitment</u>
Story City Recreation Trail	\$ 31,516
Storm Sewer/I-Jobs Project	394,051
Street Project	937,646

(12) Golf Course Lease

On January 1, 2009, the City entered into a lease with River Bend Golf Course LTD which states that River Bend is going to manage and operate the City owned golf course. The lease is a 10 year lease with automatic renewal upon expiration. Starting in January 2012, River Bend will pay the City \$7,500 or 5% of gross revenues for the year, whichever is less. This fee will be paid by January 31st of the following year. No fees will be charged by the City for the first 3 years of operation. In years in which the golf course suffers losses due to flooding, these fees may be waived.

(13) Forgivable Loans

The City received two forgivable loans (\$115,000 and \$300,000) from the Iowa Department of Economic Development (IDED) during the fiscal year ended June 30, 2010. These loans were passed thru to Generation Repair and Service, LLC. Generation Repair and Service, LLC is required to meet certain terms, including fulfillment of job obligations. If the terms of the funding agreements are met, then the IDED will forgive the loans to the City.

(14) Health Insurance

The City entered into an agreement to partially self-fund employee deductibles and out of pocket maximum payments under their health insurance plan. The deductible for an employee under a single plan is \$500 and for a family plan is \$1,000.

The maximum out of pocket costs for an employee under a single plan is \$1,000 and for a family plan is \$2,000.

The maximum liability to the City is \$1,000 for a single plan and \$2,000 for a family plan.

Required Supplementary Information

City of Story City
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 964,559	-
Tax increment financing collections	759,687	-
Other city tax	487,913	-
Licenses and permits	9,095	-
Use of money and property	92,850	13,225
Intergovernmental	939,970	-
Charges for service	157,575	716,235
Special assessments	-	-
Miscellaneous	102,772	-
Total receipts	3,514,421	729,460 -
Disbursements:		
Public safety	462,292	-
Public works	395,681	-
Health and social services	19,900	-
Culture and recreation	503,476	-
Community and economic development	380,541	-
General government	356,833	-
Debt service	493,810	-
Capital projects	1,466,632	-
Business type activities	-	738,358
Total disbursements	4,079,165	738,358
Excess (deficiency) of receipts over (under) disbursements	(564,744)	(8,898)
Other financing sources (uses), net	1,882,559	(10,450)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,317,815	(19,348)
Balances beginning of year	2,422,271	891,258
Balances end of year	\$ 3,740,086	871,910

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
964,559	964,425	964,425	134
759,687	672,642	672,642	87,045
487,913	470,065	495,065	(7,152)
9,095	8,570	8,570	525
106,075	121,380	136,380	(30,305)
939,970	384,500	912,305	27,665
873,810	826,450	826,450	47,360
-	3,000	3,000	(3,000)
102,772	107,100	122,325	(19,553)
4,243,881	3,558,132	4,141,162	102,719
462,292	453,930	543,930	81,638
395,681	415,720	472,720	77,039
19,900	20,500	20,500	600
503,476	513,605	513,605	10,129
380,541	35,000	40,000	(340,541)
356,833	341,395	356,395	(438)
493,810	795,868	795,868	302,058
1,466,632	1,035,000	1,585,905	119,273
738,358	829,750	959,750	221,392
4,817,523	4,440,768	5,288,673	471,150
(573,642)	(882,636)	(1,147,511)	573,869
1,872,109	921,000	921,000	951,109
1,298,467	38,364	(226,511)	1,524,978
3,313,529	3,193,865	3,313,529	-
4,611,996	3,232,229	3,087,018	1,524,978

City of Story City

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted receipts by \$583,030 and budgeted disbursements by \$847,905. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the community and economic development and general government functions.

Other Supplementary Information

City of Story City

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds**

As of and for the year ended June 30, 2010

	Special Revenue							Debt Service
	Economic Development Revolving Loan	Police Forfeitures	Road Use Tax	Library Trust	Equipment Replacement	Insurance	Golf Course Trust	Special Assessmen
Receipts:								
Property tax	\$ -	-	-	-	-	-	-	4,42
Other city tax	-	-	-	-	-	-	-	-
Use of money and property	32,003	1	-	6,533	239	-	1	1
Intergovernmental	-	-	299,435	-	20,500	-	-	-
Special assessments	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	3,742	15,750	-	1,000	-
Total receipts	32,003	1	299,435	10,275	36,489	-	1,001	4,44
Disbursements:								
Operating:								
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	316,019	-	-	-	-	-
Culture and recreation	-	-	-	14,310	-	-	-	-
Community and economic development	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	2,639	-	-
Debt service	-	-	-	-	-	-	-	-
Capital projects	-	-	-	-	138,950	-	-	-
Business type activities	-	-	-	-	-	-	-	-
Total disbursements	-	-	316,019	14,310	138,950	2,639	-	-
Excess (deficiency) of receipts over (under) disbursements	32,003	1	(16,584)	(4,035)	(102,461)	(2,639)	1,001	4,44
Other financing sources (uses):								
Bond/Note proceeds, net of fees	-	-	-	-	93,000	-	-	-
Sale of fixed assets	-	-	-	-	-	-	-	-
Operating transfers in	-	-	-	-	44,000	3,620	-	-
Operating transfers out	-	-	-	(3,752)	-	-	(1,121)	(4,42)
Total other financing sources (uses):	-	-	-	(3,752)	137,000	3,620	(1,121)	(4,42)
Net change in cash balances	32,003	1	(16,584)	(7,787)	34,539	981	(120)	1
Cash balances beginning of year	70,347	452	102,709	254,416	104		120	2,45
Cash balances end of year	\$ 102,350	453	86,125	246,629	34,643	981	-	2,47
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ 102,350	\$ 453	86,125	246,629	34,643	981	-	-
Debt service fund	-	-	-	-	-	-	-	2,47
Capital projects funds	-	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 102,350	453	86,125	246,629	34,643	981	-	2,47

See accompanying independent auditors' report.

Capital Projects						Permanent Cemetery Perpetual Care	Total
Trees Forever	Downtown Improvements	I-Jobs Storm Sewer	Recreation Center	Capital Improvements	Housing Assistance		
-	-	-	-	28,908	-	-	33,333
-	-	-	-	-	-	-	-
2	15	-	139	24	49	583	39,605
-	-	-	-	-	-	-	319,935
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,893	-	-	20,000	-	-	750	44,135
2,895	15	-	20,139	28,932	49	1,333	437,008
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	316,019
-	-	-	-	-	-	-	14,310
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	2,639
-	-	-	-	-	-	-	-
5,932	-	126,462	-	-	10,000	-	281,344
-	-	-	-	-	-	-	-
5,932	-	126,462	-	-	10,000	-	614,312
(3,037)	15	(126,462)	20,139	28,932	(9,951)	1,333	(177,304)
-	-	-	-	-	-	-	93,000
-	-	-	-	-	-	-	-
3,500	-	-	-	-	-	-	51,120
-	-	-	-	(23,000)	-	-	(32,298)
3,500	-	-	-	(23,000)	-	-	111,822
463	15	(126,462)	20,139	5,932	(9,951)	1,333	(65,482)
648	4,765	-	42,529	(8,131)	20,204	61,247	551,864
1,111	4,780	(126,462)	62,668	(2,199)	10,253	62,580	486,382
-	-	-	-	-	-	-	471,181
-	-	-	-	-	-	-	2,470
1,111	4,780	(126,462)	62,668	(2,199)	10,253	-	(49,849)
-	-	-	-	-	-	62,580	62,580
1,111	4,780	(126,462)	62,668	(2,199)	10,253	62,580	486,382

City of Story City
Schedule of Indebtedness
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Apr. 1, 2001	4.00-4.80%	775,000
Corporate purpose	Jan. 1, 2003	2.15-4.45%	550,000
Water improvement refunding	Jan. 15, 2007	3.70-4.10%	1,155,000
Annual appropriation development	Mar. 1, 2009	4.00-6.15%	1,115,000
Corporate purpose-interim financing	Jun. 8, 2010	0.75%	1,225,000
Total			
Urban Renewal Tax Increment Financing Bonds:			
Urban Renewal Tax Increment Bonds-Series 07B	May 15, 2007	4.15-4.95%	\$ 2,500,000
Urban Renewal Tax Increment Bonds-Series 2010	Jan. 14, 2010	1.70-3.55%	570,000
Total			
Other:			
Street Department Truck	May 21, 2010	0.00%	\$ 93,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 185,000	\$ -	\$ 90,000	\$ 95,000	\$ 8,790	\$ -
250,000	-	60,000	190,000	10,670	-
1,155,000	-	110,000	1,045,000	45,188	-
1,115,000	-	-	1,115,000	74,563	-
-	1,225,000	-	1,225,000	-	-
<u>\$ 2,705,000</u>	<u>\$ 1,225,000</u>	<u>\$ 260,000</u>	<u>\$ 3,670,000</u>	<u>\$ 139,211</u>	<u>\$ -</u>
\$ 2,500,000	\$ -	\$ 230,000	\$ 2,270,000	\$ 112,943	\$ -
-	570,000	-	570,000	-	-
<u>\$ 2,500,000</u>	<u>\$ 570,000</u>	<u>\$ 230,000</u>	<u>\$ 2,840,000</u>	<u>\$ 112,943</u>	<u>\$ -</u>
\$ -	\$ 93,000	\$ 93,000	\$ -	\$ -	\$ -

City of Story City

Note Maturities

June 30, 2010

Year Ending June 30,	General Obligation Notes					
	Annual Appropriation		Corporate Purpose		Interim Financing	
	Issued Mar 1, 2009		Issued Apr 1, 2001		Corporate Purpose	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	4.00	90,000	4.80	95,000	0.75	1,225,000
2012	4.50	90,000	-	-	-	-
2013	4.65	100,000	-	-	-	-
2014	4.90	100,000	-	-	-	-
2015	5.15	105,000	-	-	-	-
2016	5.50	110,000	-	-	-	-
2017	5.70	120,000	-	-	-	-
2018	5.90	125,000	-	-	-	-
2019	6.05	135,000	-	-	-	-
2020	6.15	140,000	-	-	-	-
Total		<u>\$ 1,115,000</u>		<u>\$ 95,000</u>		<u>\$ 1,225,000</u>

Year Ending June 30,	Corporate Purpose		Corporate Purpose		
	Issued Jan 1, 2003		Issued Jan. 15, 2007		
	Interest		Interest		
	Rates	Amount	Rates	Amount	Total
2011	4.20	60,000	3.75	115,000	1,585,000
2012	4.35	65,000	3.80	120,000	275,000
2013	4.45	65,000	3.85	125,000	290,000
2014	-	-	3.90	125,000	225,000
2015	-	-	3.95	130,000	235,000
2016	-	-	4.00	135,000	245,000
2017	-	-	4.05	145,000	265,000
2018	-	-	4.10	150,000	275,000
2019	-	-	-	-	135,000
2020	-	-	-	-	140,000
Total		\$ 190,000		\$ 1,045,000	\$ 3,670,000

Year Ending June 30,	Urban Renewal Tax Increment Financing Bonds		Urban Renewal Tax Increment Financing Bonds		Total
	Series 2007B		Series 2010		
	Issued May 15, 2007		Issued Jan 14, 2010		
	Interest Rates	Amount	Interest Rates	Amount	
2011	4.95	240,000	1.70	-	240,000
2012	4.95	250,000	1.70	130,000	380,000
2013	4.85	265,000	2.45	-	265,000
2014	4.15	280,000	2.45	140,000	420,000
2015	4.20	290,000	3.10	-	290,000
2016	4.25	300,000	3.10	145,000	445,000
2017	4.30	315,000	3.55	-	315,000
2018	4.35	330,000	3.55	155,000	485,000
Total		\$ 2,270,000		\$ 570,000	\$ 2,840,000

See accompanying independent auditors' report.

City of Story City
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Seven Years

	2010	2009	2008	2007	2006	2005	2004
Receipts:							
Property tax	\$ 964,559	\$ 910,698	\$ 870,452	\$ 815,902	\$ 737,182	720,335	\$ 667,167
Tax increment financing collections	759,687	749,438	899,346	998,845	683,605	1,076,649	1,229,827
Other city tax	487,913	514,764	485,347	473,843	422,805	408,444	408,370
Licenses and permits	9,095	12,627	8,660	14,935	12,649	14,964	14,042
Use of money and property	92,850	91,044	132,281	172,571	121,156	86,079	57,274
Intergovernmental	939,970	490,382	352,661	612,109	419,531	630,206	351,606
Charges for service	157,575	158,673	137,977	139,641	128,921	115,112	119,356
Special assessments	-	2,202	7,285	21,603	8,138	43,259	25,132
Miscellaneous	102,772	109,605	123,273	79,726	224,252	179,499	59,974
Total	\$ 3,514,421	\$ 3,039,433	\$ 3,017,282	\$ 3,329,175	\$ 2,758,239	3,274,547	\$ 2,932,748
Disbursements:							
Operating:							
Public safety	\$ 462,292	\$ 475,784	\$ 422,697	\$ 423,161	\$ 382,754	369,443	\$ 410,974
Public works	395,681	448,109	414,110	400,717	370,229	354,287	349,452
Health and social services	19,900	-	-	19,900	-	1,000	971
Culture and recreation	503,476	610,499	580,565	396,949	404,715	392,586	353,434
Community and economic development	380,541	165,509	162,197	242,974	99,198	399,896	265,810
General government	356,833	323,761	329,277	304,198	315,090	369,192	361,520
Debt service	493,810	802,846	789,916	3,182,355	620,143	1,576,327	521,850
Capital projects	1,466,632	1,947,569	495,292	3,617,145	1,421,835	984,059	813,526
Business type activities	-	38,543	-	-	-	-	-
Total	\$ 4,079,165	\$ 4,812,620	\$ 3,194,054	\$ 8,587,399	\$ 3,613,964	4,446,790	\$ 3,077,537

See accompanying independent auditors' report.

City of Story City

**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Story City, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 25, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Story City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the City of Story City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Story City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of the City of Story City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Story City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Story City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Story City's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Story City and other parties to whom the City of Story City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Story City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

August 25, 2010
Ames, Iowa

City of Story City
Schedule of Findings
Year ended June 30, 2010

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Story City
Schedule of Findings
Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Story City
Schedule of Findings
Year ended June 30, 2010

Part III: Other Findings Related to Statutory Reporting:

- III-A-10 **Certified Budget** – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the community and economic development and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do so in the future.

Conclusion – Response accepted.

- III-B-10 **Questionable Disbursements** – We noted two disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The disbursements were for flowers and bakery goods.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

- III-C-10 **Travel Expense** – No disbursements of City money for travel expenses of spouses of City officials or employees were noted

- III-D-10 **Business Transactions** – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jensen Excavating, owned by son Of Council Member	Services	\$ 11,608

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the above individual appear to represent a conflict of interest since total transactions with the individual exceeded \$1,500 during the fiscal year.

City of Story City

Schedule of Findings

Year ended June 30, 2010

Recommendation – The City should consult with legal counsel to determine the disposition of this matter.

Response – We will do so.

Conclusion – Response accepted.

III-E-10 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-10 Deposits and Investments – No instances of non-compliance with the City's investment policy were noted.

III-H-10 Urban Renewal Tax Increment Financing Bonds – Provisions of the resolution authorizing the Series 2007B and Series 2010 Urban Renewal Tax Increment Financing Bonds require a Reserve Fund to be established with semi-yearly transfers into the Reserve Fund until a minimum balance of \$307,000 has been established. This Reserve Fund has not been established as of June 30, 2010.

Recommendation – The City should follow the provisions of the resolutions authorizing the issuance of the Urban Renewal Tax Increment Financing Bonds.

Response – We will transfer \$307,000 from the Special Revenue Tax Increment Financing Account to a separate Reserve Fund as required.

Conclusion – Response accepted.

III-I-10 Financial Condition – The Capital Project Funds, Capital Improvements account and I-Jobs Storm Sewer account had deficit balances at June 30, 2010 of \$2,199 and \$126,462, respectively. The Business Type Fund, Storm Water Drainage account had a deficit balance of \$20,793 at June 30, 2010.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – We will do so.

Conclusion – Response accepted.

City of Story City

Schedule of Findings

Year ended June 30, 2010

III-J-10 Payroll - The City charges employees an annual fee of \$60 to participate in the flexible spending plan. The City withholds this fee as a tax free deduction from the employee paychecks. It should be subject to tax.

City hall employees are given a clothing allowance of \$100 per year. This should be included as taxable wages on their W2 since they are not required to wear a uniform and their clothes may be adaptable for regular use.

Recommendation - The City should change this fee so it is not being taken out of employee paychecks on a pre-tax basis.

Response - We will do so.

Conclusion - Response accepted.